



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: November 24, 2008

Approved

Date

12-2-08

COUNCIL DISTRICT: 3
SNI AREA: N/A

SUBJECT: APPROVAL OF A \$600,000 CONDITIONAL GRANT TO INNVISION THE WAY HOME FOR THE INNVISION VILLAS LOCATED AT 184 SOUTH ELEVENTH STREET

RECOMMENDATION

It is recommended that the City Council adopt a resolution approving:

- a) Authorizing the Director of Housing to negotiate and execute a conditional grant of up to \$600,000 to InnVision - The Way Home ("InnVision") for the InnVision Villa, a 26-unit Single Room Occupancy (SRO) housing project targeted to very low-income households;
- b) Amend the term of the existing Housing Department loan from being repayable to be forgivable at the end of the term; and,
- c) Amend the affordability unit mix from 26 very low-income to 6 very low-income and 20 extremely low-income units, and extending the term of affordability by an additional 55 years.

OUTCOME

By providing the additional funds, the City will enable InnVision to pay off its interest-bearing loan on the InnVision Villa with United Securities Bank. This will strengthen the nonprofit's overall financial position by reducing their monthly debt obligation allowing the organization to provide more services to individuals at risk of homelessness at this location. As consideration for the conditional grant, the term of the affordability restriction will be lengthened by 55 years and modified to require that the affordability be deepened for extremely low-income persons,

thus ensuring that this property will continue to serve individuals at risk of homelessness through the 21st century.

BACKGROUND

Since 1973, InnVision's programs have strived to meet the demand for immediate, sustainable, and humane solutions. Each year the nonprofit agency's services impact 20,000 individuals at 20 locations. InnVision has been successful at serving the region's homeless and at-risk residents by offering a variety of types of housing, including permanent, transitional, and emergency, and day centers that provide extensive supportive services aimed at breaking the cycle of poverty.

In June 1999, InnVision purchased a site located at 184 South Eleventh Street for use as a 26-room Single Room Occupancy (SRO) housing project serving women with children at high risk of becoming homeless or making the transition from homelessness to self-sufficiency.

Purchase and rehabilitation of the site was partially financed by the City. The Housing Department provided a 30-year loan in the amount of \$757,000 from the Low and Moderate Income Housing Fund (20% funds). That loan now has a balance of balance of \$625,333. Through the Housing Department, a grant from Redevelopment Agency funds was also provided in the amount of \$710,000. The City's loan is a zero percent, deferred payment obligation secured by a first-lien priority deed of trust. The loan is repayable at the end of the loan term in 2029. A 55-year affordability restriction was recorded against the property requiring that the project be occupied by very low-income tenants.

In September, 2004, InnVision obtained a \$700,000 loan at 5.5 % interest from United Securities Bank (formerly Legacy Bank) in order to obtain a retire an existing privately funded loan that was at a higher interest rate. The new private loan was secured by a deed of trust behind the City loan, with monthly payments of \$5,305. The loan has a balloon payment of \$509,000 due in October, 2011. The principal balance of the United Securities Bank loan is approximately \$590,000.

ANALYSIS

The Housing Department has been working with its nonprofit partners that provide services to the homeless and at-risk population to ensure their long-term financial viability. If any of these agencies were to fail, the City would have to provide additional resources to support this population.

The InnVision Villa property provides transitional housing services to individuals that are either at risk of becoming homeless or are transitioning out of the shelter system. The limited ability for its clients to pay a market-rate rent at these facilities makes it hard to support debt. The Department's analysis of InnVision's financial situation indicates that the income generated from the InnVision Villa does not fully support the monthly debt service payments due on the United Securities Bank loan. InnVision currently uses fund-raising proceeds and other grants to cover

the debt service gap. The inconsistent nature of individual donor contributions, particularly in difficult economic times, negatively impacts InnVision's cash flow at a time when its services are needed the most.

Therefore, the Housing Department staff is recommending that City Council authorize up to \$600,000 in additional funding for the InnVision Villa property to ensure its continued operation. It is further recommended that the City's commitment be in the form of a no payment, performance-based grant. The conditional grant will be secured by a deed of trust under which repayment is not required – provided that the property is operated in compliance with the City's affordability restriction. The amount provided will be sufficient to retire the United Securities Bank loan and cover the loan closing costs.

It is also recommended that the City Council authorize the Director of Housing to execute an amendment to the term of the existing Housing Department loan from being repayable to be forgivable at the end of the term. This is consistent with the Housing Department's practice of recommending that any loans to homeless services providers for their facilities be forgivable at the end of the term since these agencies do not generate sufficient cash from their properties to pay off the loan.

The City commissioned the firm of Hulberg & Associates ("Hulberg") to determine the appropriate value of the subject site. The real estate appraisal was completed by Hulberg this past August. Hulberg concluded that the property had a value of \$2,240,000 based on restricted rents. Based on that figure, the combined loan-to-value ratio (LTV) for the City's proposed performance-based grant of up to \$600,000, the existing City loan balance of \$625,333, and the Redevelopment Agency grant of \$710,000 is estimated to be 86%. This is well below the 100% maximum LTV established by City policy for commitment of City funds. The deed of trust securing the City's performance-based grant will be second in lien-priority behind the existing City loan.

As consideration for the additional funding, the City's existing affordability restrictions that will expire in 2053 be amended to expire in 2108. In addition, the affordability on 20 of the 26 units will be deepened from VLI to ELI. Because the proposed performance-based grant will not require payments, the City will require that a substantial portion of the income generated by the project be earmarked to build up replacement reserves for future capital improvements.

The existing Affordability Restrictions will be amended and rerecorded at the closing of the City performance-based loan. Specific business terms will be approved by the Director of Housing through the City's Delegation of Authority ordinance in Chapter 5.06 of the San José Municipal Code.

EVALUATION AND FOLLOW-UP

The Housing Department will continue to work closely with InnVision to monitor the nonprofit agency's financial position. InnVision has several other transitional housing facilities serving

low-income clients that may need additional financial support. The Housing Department will return to the City Council after it has completed its review of these facilities and provide a funding recommendation as appropriate.

POLICY ALTERNATIVES

The Housing Department considered the following alternative before recommending that the Director be given authority to execute a new \$600,000 conditional grant with InnVision to pay off its debt on the InnVision Villa property.

Alternative #1: *The City does not approve InnVision's request for a forgivable loan to retire the debt on the InnVision Villa Property.*

Pros: The City would retain \$600,000 that it could use to help fund other affordable housing projects.

Cons: InnVision will have to continue to rely on unreliable funding sources to meet its funding obligations on the InnVision Villa property – thus limiting their ability to provide vital services and jeopardizing their financial viability.

Reason for not recommending: Retiring the debt on the InnVision Villa Property will improve the nonprofit agency's financial position and allow them to redirect contributions to pay for services instead of retiring debt.

PUBLIC OUTREACH/INTEREST

This item does not meet any of the criteria below; however, this item will be posted on the internet via the City Council's website for the December 16th 2008 meeting.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
(Required: Website Posting)
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

Preparation of this report has been coordinated with the Redevelopment Agency and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This proposed plan is consistent with the City's Ten-Year Plan to End Chronic Homelessness, Destination Home, and the Housing Department's *Five-Year Investment Plan, Fiscal Years 2007/08-2011/12*, as adopted by City Council in June 2007.

COST SUMMARY/IMPLICATIONS

1. **COST OF PROJECT:** The City will incur a one-time expenditure of \$600,000.
2. **SOURCE OF FUNDING:** Fund 443—Low- and Moderate-Income Housing Fund.
3. **FISCAL IMPACT:** No ongoing fiscal impact.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2007-2008 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
443	0070	Housing Loans, Grants & Site Acquisitions	\$90,000,000	\$600,000	XI - 53	6/24/08 28349

CEQA

NEPA: Not a Project

CEQA: Not a Project

LESLYE KRUTKO
Director of Housing

For questions, please contact Leslye Krutko at (408) 535-3851.

LOCATION MAP

Innvision Villa

184 South Eleventh Street, San Jose, CA

